



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m , March 21, 2000. The following members were present:

Chairman Jody B. Olson
Susan K. Simmons
Dennis L. Johnson
J. Kirk Sullivan

Trustee Pamela Ahrens was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, IT Manager Ted Aho, Medical Advisors B. Strouth and John Mather, and Administrative Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn
Richelle Sugiyama
Brian McGrath
Rod MacKinnon
Bruce Reeder
Brent Nye
Judy Aitken
Charlie Brown
Alan Pritchett
Jerry Rasavage
Lynne A. Minard
Ron Liesching
Marta Watson

Dorn, Helliesen & Cottle
Dorn, Helliesen & Cottle
D.B. Fitzpatrick & Co.
Mountain Pacific Investments
Mountain Pacific Investments
Boise School District
PERSI
REA of Idaho
BEA
IPEA
Pareto Partners
Pareto Partners
DFM

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. The Board went into executive session at 8:30 a.m.

After discussion of each disability applicant, the Board went back into regular session at 8:45 a.m. By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the disability applications, Arne M. Matalamaki, and Burch H. McDonald with no review; Barbara Chesley, Janet Johnson, George A. McAdams, Karen R. McCall, Peggy Teeples and Betty J. Teichmer with a review in one year; and Jerry T. Rosin with a two-year review.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board approved the minutes of the February 22, 2000, regular Board meeting as submitted.

INFORMATION TECHNOLOGY

Galena Update : IT Manager Ted Aho discussed the implementation of the Galena membership system, saying some components are out of warranty and in a maintenance mode. He told the Board that Galena will be affected by implementation of the DC gains sharing plan and the staff is gearing up to make the changes. The “bugs” we are finding in Galena are not uncommon in new systems. Mr. Aho discussed staffing for the changes and said personnel turnover at Watson Wyatt is causing some delays, but he expects benefit payments and transmittals to be ready around September or October of this year. He is working internally and with Watson Wyatt to determine how to have the changes for gains sharing ready for use in January 2001. Answering a question from Chairman Olson, Mr. Aho said the current role of our quality assurance consultant is to attend meetings between Watson Wyatt and PERSI regarding unresolved issues. He said our Galena program is going to be a success; we are looking into building onto this Galena base to provide more efficient service to our members. Trustee Sullivan asked what the picture would have looked like if Galena had been completed according to the original time schedule, compared to what is necessary now. Mr. Aho replied that the coordination that we must now make between the Galena system and the new DC implementation would not have been needed. He said Watson Wyatt is spending some additional time to avoid interfering with our modified programs. There is a cost to PERSI, but it is hard to determine a dollar cost.

Technology Plan: Bruce Becker of KPMG reviewed the study of possible technology enhancements over the next few years. He said the PERSI staff is working very hard and there are not a lot of efficiencies to be gained unless technology is used. His review shows PERSI now has a well-run process, but as telephone calls increase, the current staff will not be able to handle the workload. Within the next ten years, PERSI will need to handle 50% more telephone calls, correspondence, retirements and member contacts. He discussed imaging, using a call center, and an Interactive Voice Response system. He said staff’s goal is to continue to provide personal retirement counseling and high quality customer service. Acknowledging that the projects scheduled in the coming year are numerous, Mr. Becker said studies of the types of calls and correspondence that PERSI receives are currently in process. Providing information on the web and through printed mailings will help reduce calls. PERSI wants to provide a personal contact to all members who want to reach a staff member for their questions, but many members

will prefer to check the web page for frequently asked questions and updates which will lower the workload. The Data Cleanup process needs to be completed quickly; a study of several hundred records is underway to determine methods of conducting this record audit.

PORTFOLIO

Monthly Portfolio Update: Mr. Maynard introduced Rafael Stone and Christa Ayers who do specialized outside legal work for PERSI. He then reviewed his Investment Report dated March 18, 2000 which showed a total fund return for the month of 3.0% with the total current value of the fund listed as \$7,273,700,831. The fiscal year-to-date return is 13.9%. Mr. Maynard expects further Federal Reserve Board tightening and said markets have been volatile since the beginning of the calendar year. U.S. equity value styles continue to be out of favor, while the best performing markets are mid-and small-cap growth and emerging markets. PERSI's international exposure continues to drive relative outperformance, both through global managers and international equity managers. Mountain Pacific, Brandes and Lend Lease are having difficult markets. Zesiger, TCW and Columbus Circle are having spectacular fiscal years.

The hedging program now has a to-date-profit of \$3 million. Regarding private equity investments, Mr. Maynard said we will be investing more with those that are doing well. Compared to our peers in the field, PERSI is ranking very high. Overall, our fund is doing what we expected it to do, given the current circumstances.

Mr. Maynard introduced Ron Liesching and Lynne Minard from Pareto, our currency hedging manager. Based in London, they were in Boise and were able to attend this meeting.

Chairman Olson invited comments from PERSI managers who were attending the meeting. Mr. Liesching discussed currency issues, and in response to a question from the Board, said everyone thinks the euro should be higher than it is. In the short term, the euro has political vulnerabilities in Europe. Eventually, the dollar will go down, because Americans are living beyond their means and not saving. He said PERSI has added value to the fund by asset allocation and diversification strategies. Brian McGrath discussed the inverted yield curve. He expects to see the intermediate rates come down in the next six months. Rod MacKinnon says it would be positive for his company's value-driven investments if some of the speculation is taken out of the revenue-driven investment models. Mr. Liesching added that everyone is concerned about putting money into domestic investments; most are looking for ways to increase their international allocations. Technology is removing intermediate costs which will be a long-term benefit to investors.

Monthly Report: Doug Dorn of Dorn, Helliesen & Cottle reviewed the performance report for the period ended February 29, 2000. The total fund return for the fiscal year-to-date is 10.5% with a 2.6% return for the month. Mr. Dorn is beginning the study of PERSI's asset allocation that we do every two years. 90% of our return comes from the asset allocation decision. Mr. Dorn provided preliminary asset mix charts showing different risk levels to the Board. The recommendation will be presented at the next Board meeting. There was some discussion on the one-standard-deviation PERSI needs in the stabilization fund. Now that we have invested in TIPS bonds, we have further inflation protection. Chairman Olson asked for a tutorial on this issue before the next meeting.

FISCAL:

Fiscal Update: Executive Director Alan Winkle told the Board that all budget reports show we are in line with the expected expenditures. Hearing no questions on those reports, he discussed Mr. Monroe's March 15, 2000 memorandum summarizing current fiscal items of interest. He reviewed the Galena project budget status and said some funds are budgeted for maintenance of the system. At the end of February, penalties on the Galena Project reached their maximum, so we will now have a precise amount in the reports.

Annual Report Timing: Mr. Monroe had previously furnished a memorandum dated March 15, 2000 regarding the timing of issuing the PERSI annual report. The Board would like to see the report available within 60 days of the fiscal-year-end and will discuss it further with staff.

EXECUTIVE DIRECTOR

Future Projects: Mr. Winkle discussed projects facing PERSI focusing on those necessary to implement the 2000 legislation. He outlined those which impact the coming nine months as well as board decisions required by legislation or operational impacts. He is working with our actuaries at Milliman and Robertson to prepare a one-day session covering the basics of DB and DC plans, fiduciary aspects, plan design, investments and mechanical aspects including record keeping. He hopes to schedule this session in late April. In response to a question from Chairman Olson, Mr. Winkle said shorter tutorials will be incorporated into regular Board meetings, but in order to cover all the basics, a longer session will be needed.

Senator Cameron has been supportive of HB510 and HB511, taking time to testify in both the House and Senate committees and caucuses. Regarding committee discussion as to the division of gains sharing between active employees, retirees and employers, Mr. Winkle said there had been discussion of as much as 73% going to employers. The Board needs to go through the education process on a step-by-step basis before making the key decisions. He told the Board he believes the legislators expect the division to come out close to the 38% employee, 12% retiree and 50% employer figures that have been discussed with them, although the Board must set the final process. The distribution occurs in January 2001, giving us six months after the fiscal-year-end to do this. The actual distribution decision will be made in October or November, but we will get the infrastructure in place before the January 2001 deadline. The Board will step through the decision process in the coming months and adopt a process of determining not only the division criteria but how the gains sharing pool will be declared.

Chairman Olson asked why the retirees gains sharing payment would not be a separate check. Mr. Winkle said the accounting system is configured for a 12 payment annual cycle and withholds medical insurance payments and other deductions accordingly. There was discussion as to the additional federal and state tax that would be withheld if one check was much larger than normal. Mr. Winkle will continue to investigate methods of handling these issues.

New Employer Unit: By motion duly made by Trustee Sullivan seconded by Trustee Johnson and unanimously approved, the Board welcomed the Clearwater Soil and Water Conservation District as a new employer unit of PERSI effective March 1, 2000. There is no entry cost for them to join PERSI.

Other Business: Chairman Olson noted that Brent Nye of the Boise Schools had sent a letter to him commending PERSI Field Representative Judith Porges for her presentations to school employees.

Mr. Olson said we owe a message to our participants upon passage of the current legislation. Mr. Winkle said we are dedicating the front cover of our newsletters to these changes. Public Information Officer Becky Crowther told the Board that we normally publish our newsletters in April and we will have them ready to print and mail as soon as the legislation is passed. Chairman Olson said we have a lot of people who have worked hard for these improvements and we want them to know we appreciate their efforts.

FUTURE BOARD MEETINGS

Tuesday, April 25, 2000, 8:30 a.m., Boise – PERSI office

Tuesday, May 23, 2000, 8:30 a.m., Boise – PERSI office

Thursday, June 22, 2000, 9:30 a.m., Red Lion Hotel – Lewiston Idaho

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 11:22 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director